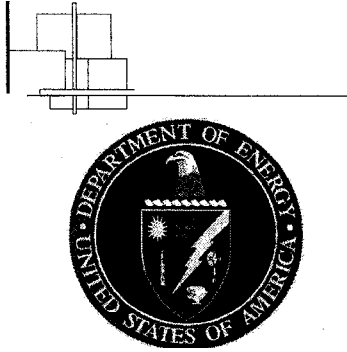


Accounting for Internal Use Software



U.S. Department of Energy
FMSIC Meeting
July 18, 2000



FASA B's Standard No. 10

- Requirements
- Implementation Activities To Date
- Issues and Concerns

Standard #10 - Accounting for Internal Use Software

- Internal Use Software is classified as "general property, plant & equipment"
- Internal Use Software is software...
 - Purchased off-the-shelf
 - Internally developed, or
 - Contractor-developed
 - Solely to meet the entity's internal needs
 - (i.e., most everything)

Standard #10 - Accounting for Internal Use Software

- Internal Use Software (including functional enhancements) must be capitalized if capitalization threshold is met and it has a useful life of two years or more
- Capitalized costs include those incurred during the "software development" phase of a project as defined by Standard No. 10 (i.e., expense preliminary design phase and post

Standard #10 - Accounting for Internal Use Software (cont.)

- Data conversions (considered post implementation) are not to be capitalized
- Costs incurred prior to implementation of Standard 10 should not be restated or adjusted
- Standard is effective FY 2001
- Applies to both federal offices and contractor operations

Standard # 10

~n~~ ~ Implementation

- *Impacts Numerous Functions*

- . Accounting
- . Procurement
- . Info Tech
- . Property Management
- . "Shadow" Systems Developers
- . Users & Requisitioners

Bottom Line: Broad Education & Control Needed

Standard # 10

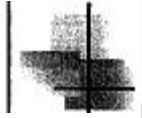
Implementation

- Will Require Extensive Procedural Revisions
 - Procurement Policies*
 - Accounting Policies
 - IT Policies*
 - Property Management Policies
- * establish controls to capture software purchases exceeding capitalization threshold, and/or establish software project management rules

Standard # 10

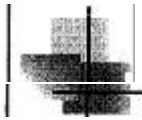
Implementation

- Will Require Accounting Systems Changes or Work-Arounds
 - Ability to Capture Indirect Costs?
 - Ability to Track IT Project Costs across FY's? (especially for business systems development)
 - Ability to Track and Amortize Intangible Capitalizable Assets? And to Capture and Amortize Improvements?
 - Ability to Apply Project Management Practices to "Overhead" Software Development?



DOE Working Group.

- Department's Working Group
 - <Headquarters and Field organizations
 - HQ: CR-20; CR-60; SO (Information Technology); MA (Personal Property)
 - Field: AL; ID; NV; SR
 - "Shadow" contractor participation
 - <Meeting every two weeks initially
 - <Last Meeting on June 27th



Interagency Working Group

- Interagency Working Group
 - <Sponsored by the CFO/CIO Council
 - <Chaired by Bert Edwards, CFO, State Dept.
 - <DOE representation:
 - Mary Rosicky, CR-20
 - Paul Anderson, Savannah River Operations Office
 - Pat Monahan, Westinghouse Savannah River
 - <Monthly meetings were held beginning September, 1999, through February, 2000

Interagency Working Group Implementation Issues

- The Interagency Working Group:
 - Identified implementation issues and developed proposed responses
 - Prepared a paper which was submitted to the CFO Council
 - <The CFO Council submitted it to FASAB's Accounting and Auditing Policy Committee (AAPC) for consideration to publish as an implementation guide under the auspices of the AAPC
 - <At their last meeting the AAPC assigned it to a subgroup to decide which items can be selected for publication

Interagency Working Group

Product

- That leaves some issues they won't take up
- They are looking for another vehicle to get the rest of them published; e.g., an article published in a professional journal
- One of the Interagency Working Group's issues had to do with "retroactive capitalization." The AAPC sent it to FASAB for consideration as to possibly revising the Standard.
- FASAB dealt with this issue at their June 8th and 9th meeting and concluded that "the clear wording of paragraph 36 of SFFAS #10 precludes retroactive capitalization"

DOE Working Group Progress



- Progress of DOE Working Group to date: <Issues have been identified & are being worked
<Interim Guidance is being developed for issuance ASAP
<An Order will follow - probably next fiscal year

DOE Working Group Progress to Date



- <In the near future, we are planning to survey Departmental Elements to find out how much software they plan to capitalize under this standard beginning October 1, 2000
 - This will help to provide a rationale for a decision on capitalization threshold
 - We are currently working our way through resolution of comments received as a result of the Field Management Council's coordination process

DOE Working Group Progress to Date

- DISCAS entries are being developed
 - <"For example, we will need a "Software Work in Process Account" to hold capitalizable costs incurred during the software development stage

Internal Use Software - Issues

- Pre-SFFAS No. 10 Costs
 - <Costs incurred prior to implementation of SFFAS No. 10 do not have to be capitalized

Internal Use Software Issues

- Software Development Stage
 - <Begins when management authorizes and commits to a software project and believes that it is more likely than not that the project will be completed and the software will be used to perform the intended function with an estimated service life of 2 years or more and
 - <The completion of conceptual formulation, design, and testing of possible software project alternatives

Internal Use Software Issues

- Legacy Waste Software
 - <Legacy Waste software systems will be treated consistent with other legacy waste property

Internal Use Software Issues



- Capitalization Threshold
 - <Standard No. 10 provides flexibility for entities to establish a threshold different from other PP&E

Internal Use Software - Issues



- Where should the information reside?
 - <Personal property system?
 - <Other database?

Internal Use Software Issues

- **Capitalizable Cost**

<Includes material Direct and Indirect Costs incurred in connection with:

<Internally developed software Customizing COTS
For both contractors and Feds